

KINGMAN AIRPORT AUTHORITY, INC.

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2003

KINGMAN AIRPORT AUTHORITY, INC.
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CRONSTROM & TRBOVICH

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors of the
Kingman Airport Authority, Inc.

We have audited the accompanying general-purpose financial statements of the Kingman Airport Authority, Inc. (Authority), as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Kingman Airport Authority, Inc. as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The schedule of net income listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose statements taken as a whole.

Cronstrom & Trbovich, P.C.

Cronstrom & Trbovich, P.C.

November 11, 2003

General-Purpose Financial Statements

KINGMAN AIRPORT AUTHORITY, INC.
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2003

	Proprietary Fund Type
	<u>Enterprise</u>
Assets	
Cash and investments	\$ 905,566
Accounts receivable	87,734
Intergovernmental receivable	11,580
Deposits	918
Fixed assets (net of accumulated depreciation)	8,230,080
Intangible assets (net of accumulated amortization)	<u>20,576</u>
Total Assets	<u>\$ 9,256,454</u>
Liabilities and Fund Equity	
Liabilities	
Accrued wages and benefits	\$ 1,789
Notes payable	<u>456,683</u>
Total Liabilities	<u>458,472</u>
Fund Equity	
Contributed capital	9,105,124
Retained earnings	
Unreserved	<u>(307,142)</u>
Total Fund Equity	<u>8,797,982</u>
Total Liabilities and Fund Equity	<u>\$ 9,256,454</u>

The accompanying notes to financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS -
 ALL PROPRIETARY FUND TYPES
 YEAR ENDED JUNE 30, 2003

	Enterprise
Operating revenues	
Leases	\$ <u>453,135</u>
Total operating revenues	<u>453,135</u>
Operating expenses	
Personnel	245,814
Payroll taxes and benefits	86,850
Office expense	16,325
Professional services	13,897
Maintenance and repairs	47,013
Motor pool	19,454
Operation expense	217,364
Depreciation	456,090
Amortization	<u>4,115</u>
Total operating expenses	<u>1,106,922</u>
Operating loss	<u>(653,787)</u>
Nonoperating revenues (expenses)	
Contributions and donations	94,764
Interest revenue	16,798
Application fees	400
Miscellaneous revenues	62,741
Interest expense	(23,348)
Contingencies	<u>(38,255)</u>
Total nonoperating revenues (expenses)	<u>113,100</u>
Net loss	(540,687)
Retained earnings, beginning of year	<u>233,545</u>
Retained earnings (deficit), end of year	\$ <u>(307,142)</u>

The accompanying notes to financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
 COMBINED STATEMENT OF REVENUES AND EXPENSES -
 BUDGET AND ACTUAL - (BUDGETARY BASIS)
 ALL PROPRIETARY FUND TYPES
 YEAR ENDED JUNE 30, 2003

	Enterprise		Variance
	Budget	Actual	Favorable (Unfavorable)
Operating revenues			
Leases	\$ 426,300	\$ 453,135	\$ 26,835
Intergovernmental	4,767,631	172,048	(4,595,583)
Contributions and donations	95,000	94,764	(236)
Interest revenue	12,000	16,798	4,798
Application fees	9,800	400	(9,400)
Land sales	550,000	-	(550,000)
Proceeds from note payable	300,000	-	(300,000)
Miscellaneous revenues	1,000	62,741	61,741
Total operating revenues	<u>6,161,731</u>	<u>799,886</u>	<u>(5,361,845)</u>
Operating expenses			
Personnel	265,541	245,814	19,727
Payroll taxes and benefits	87,442	86,850	592
Office expense	20,500	16,325	4,175
Professional services	63,000	13,897	49,103
Maintenance and repairs	32,300	47,013	(14,713)
Motor pool	12,750	19,454	(6,704)
Operation expense	211,500	217,364	(5,864)
Debt service	58,000	50,652	7,348
Capital outlay	1,592,430	223,847	1,368,583
Contingencies	-	38,255	(38,255)
Total operating expenses	<u>2,343,463</u>	<u>959,471</u>	<u>1,383,992</u>
Excess (deficiency) of revenues over expenses	\$ <u>3,818,268</u>	\$ <u>(159,585)</u>	\$ <u>(3,977,853)</u>

The accompanying notes to financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 2003

Enterprise

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities	
Cash received from customers	\$ 421,993
Cash payments to employees for services	(244,025)
Cash payments to suppliers for goods/services	(420,132)
Contributions and donations	94,764
Application fees	400
Miscellaneous revenues	62,741
Contingency expenses	(38,255)
Net cash used by operating activities	<u>(122,514)</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(223,405)
Principal paid on notes payable	(27,304)
Interest paid on notes payable	(23,348)
Capital grants received	181,116
Net cash provided by capital and related financing activities	<u>(92,941)</u>
Cash flows from investing activities	
Interest revenue	16,798
Net cash provided by investing activities	<u>16,798</u>
Net increase in cash and cash equivalents	(198,657)
Cash and cash equivalents at beginning of year	<u>1,104,223</u>
Cash and cash equivalents at end of year	<u>\$ 905,566</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET

Cash and investments per the balance sheet	\$ 905,566
Total	<u>\$ 905,566</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH
USED BY OPERATING ACTIVITIES

Operating loss	\$ (653,787)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	460,205
Contributions and donations	94,764
Application fees	400
Miscellaneous revenues	62,741
Contingency expenses	(38,255)
(Increase) decrease in operating assets	
Accounts receivable	(31,142)
Increase (decrease) in operating liabilities	
Accounts payable	(19,229)
Accrued wages and benefits	1,789
Net cash used by operating activities	<u>\$ (122,514)</u>

The accompanying notes to financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kingman Airport Authority, Inc. (Authority) was incorporated in the State of Arizona in July 1992, as a nonprofit corporation. The Authority operates, maintains, and manages the Kingman Airport and Industrial Park for the City of Kingman. The Authority is administered by the board of directors who are elected by the membership of the Authority.

The Kingman Airport Authority, Inc. was formed by transferring the assets and liabilities of the Mohave County Airport Authority, Inc., which related to the Kingman Airport and Industrial Park, to the Kingman Airport Authority, Inc. The Authority leases the real property at no cost from the City of Kingman under a long term lease. Primary sources of funding for the authority are rents from subleasing real property, proceeds from the sale of real property located in the Kingman Airport Industrial Park, and grants from other governmental units. Functions financed by the Authority include management, maintenance, and development of the Kingman Airport and the Kingman Airport Industrial Park. The Authority is considered to be a political subdivision of the State of Arizona, Mohave County and the City of Kingman with the responsibility of carrying out the function of airport management.

The financial statements of the Kingman Airport Authority, Inc. conform to U.S. generally accepted accounting principles as applicable to governmental units. The more significant of the Authority's accounting policies are described below.

Reporting Entity - In evaluating how to define the Authority, for financial reporting purposes, management has identified no potential component units. The decision to include a potential component unit in the reporting entity would have been made by applying criteria set forth in U.S. generally accepted accounting principles. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the Authority) are financially accountable. The primary government is financially accountable for a potential component unit if it: appoints a voting majority of the potential component unit's governing body; and, either is able to impose its will on the potential component unit or there is a possibility of the potential component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government. In addition, a primary government may be financially accountable for a potential component unit even though the potential component unit may have a separately elected governing board, a board appointed by another government, or a jointly appointed board if the potential component unit is fiscally dependent on the primary government (e.g., the primary government must approve the potential component unit's budget, tax rates, etc.). Because no potential component units were identified in defining the Authority's reporting entity, none have been included in the Authority's reporting entity.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fund Accounting - The accounts of the Authority are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad categories as follows:

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on their balance sheets. The measurement focus is upon the determination of net income, financial position and changes in financial position.

Basis of Accounting - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Proprietary Funds are accounted for using the accrual basis of accounting. The Authority applies all applicable FASB pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Interest on bonds, proceeds of which are used in financing the construction of certain assets, is capitalized during the construction period net of interest on the investment of unexpended bond proceeds.

Budgetary Accounting - The Authority adopts an annual nonappropriated budget as a management control device. The budget is prepared on the modified accrual basis, which is a different basis of accounting than is used to present the financial statements. (See Note 9 for reconciliation.)

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

Cash Equivalents - Cash equivalents consist of short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash; and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investment with original maturities of three months or less meet this definition.

Investments - Investments in securities are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Property, Plant and Equipment - Property, plant and equipment acquired for proprietary funds is capitalized in the respective funds to which it applies. Property, plant and equipment is recorded at historical cost. Donated fixed assets are valued at their estimated fair market value on the date donated. Depreciation of property, plant and equipment is computed using the straight-line method.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest capitalized was calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

NOTE 2 - CASH AND INVESTMENTS

State statutes authorize the Authority to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool.

The Authority's investments consisted of certificates of deposit in an eligible depository and are reflected in the Combined Balance Sheet. The Authority's total investments at June 30, 2003 were \$515,689. Investments are stated at fair value.

Cash and investment at June 30, 2003 consist of the following:

Cash on hand	\$ 175
Cash in bank	389,702
Certificates of deposit	<u>515,689</u>
Total cash and investments	
on the combined balance sheet	<u>\$ 905,566</u>

Cash and investments at June 30, 2003 were entirely insured or collateralized with securities held by the Authority's custodial bank in the Authority's name.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - PROPRIETARY FUND FIXED ASSETS

The following is a summary of proprietary fund fixed assets at June 30, 2003:

Land and improvements	
Airport	\$ 7,568,675
Industrial park	3,156,117
Buildings and improvements	
Airport	1,191,084
Furniture, machinery and equipment	266,346
Construction in Progress	203,668
Less: accumulated depreciation	<u>(4,155,810)</u>
Net fixed assets	<u>\$ 8,230,080</u>

The estimated cost to complete construction in progress at June 30, 2003 was \$1,539,759.

The following estimated useful lives are used to compute depreciation:

Land and improvements	10-30 years
Buildings and improvements	7-30 years
Furniture, machinery and equipment	3-8 years

Depreciation expense for the fiscal year totalled \$456,090.

NOTE 4 - INTANGIBLE ASSETS

The following is a summary of intangible assets recorded in the Enterprise Fund which consist of site plans and a promotional video and are being amortized over periods from 7 to 15 years on a straight-line basis:

Intangible assets	\$ 76,734
Less: accumulated amortization	<u>(56,158)</u>
Net intangible assets	<u>\$ 20,576</u>

Amortization expense for the fiscal year totaled \$4,115.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - LINE OF CREDIT PAYABLE

The Authority has a line of credit with a local financial institution to provide short-term cash flow up to \$150,000. There was no balance outstanding at June 30, 2003.

NOTE 6 - NOTES PAYABLE

Notes payable at June 30, 2003, consisted of the following. Principal and interest requirements at June 30, 2003, were as follows:

<u>Description</u>	<u>Interest Rates(%)</u>	<u>Maturity</u>	<u>Outstanding Principal July 1, 2002</u>	<u>Issues</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2003</u>
Bank Loan	4.9	6/15/15	<u>\$ 483,987</u>	<u>\$ -0-</u>	<u>\$ (27,304)</u>	<u>\$ 456,683</u>

The future debt service requirements to maturity including \$148,253 of interest, are as follows:

Year ended June 30,	
2004	\$ 50,411
2005	50,411
2006	50,411
2007	50,411
2008	50,411
Thereafter	<u>352,881</u>
	<u>\$ 604,936</u>

NOTE 7 - CONTRIBUTED CAPITAL

Contributed capital increased by the following amounts:

Contributed capital, July 1, 2002	\$ 8,933,076
Capital grants received	<u>172,048</u>
Contributed capital, June 30, 2003	<u>\$ 9,105,124</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - LEASE REVENUES

As discussed in Note 1, the Authority subleases, under operating leases, certain property and improvements.

The operating leases have varying terms ranging from a month-to-month basis to twenty-five years. Most leases extending over a one-year period contain a rent adjustment based on the consumer price index. Some leases contain an option to renew for a similar term.

Minimum future rental to be received on non-cancelable leases as of June 30, 2003, for each of the next five years and in the aggregate are:

Year ended June 30,	
2004	\$ 25,790
2005	21,540
2006	20,100
2007	20,100
2008	20,100
Thereafter	<u>102,183</u>
Total minimum future rentals	<u>\$ 209,813</u>

NOTE 9 - BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the Enterprise Fund was prepared on the modified accrual basis. Consequently, the following adjustments are necessary to reconcile budgetary to GAAP basis.

	<u>Enterprise Fund</u>	
	<u>Total Operating Revenues</u>	<u>Total Operating Expenses</u>
Combined Statement of Revenues, Expenses and Changes in Retained Earnings	\$ 453,135	\$ 1,106,922
Nonoperating revenues and expenses	174,703	61,603
Adjustments to present data on the budgetary basis - additions	172,048	251,151
subtractions	<u>-0-</u>	<u>(460,205)</u>
Combined Statement of Revenues and Expenses - Budget and Actual - (Budgetary Basis)	<u>\$ 799,886</u>	<u>\$ 959,471</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. The Authority is insured by Arizona State Workers Compensation Insurance Fund for potential job-related accidents.

NOTE 11 - DEFINED CONTRIBUTION PENSION PLAN

The Authority's 401(a) Retirement Plan is a defined contribution pension plan established by the Authority and administered by Nationwide Life Insurance to provide benefits at retirement to all full-time employees of the Authority. At June 30, 2003, there were four plan members. Plan members are required to contribute 6% of covered salary. The Authority is also required to contribute 6% of covered salary. Plan provisions and contribution requirements are established and may be amended by the Authority's governing board. Covered payroll for the year totalled \$162,019. Employee contributions totalled \$9,671 and employer contributions totalled \$9,671 for the year.

NOTE 12 - FAA COMMITMENT FOR FUTURE IMPROVEMENTS

The Authority is obligated by the Federal Aviation Administration (FAA) to invest an amount equal to the proceeds of land sales at the Kingman Industrial Park in improvements to and operations of the Kingman Airport within five years from the date of the sale. The amount obligated to be spent for airport improvements and operations at June 30, 2003, is \$0. The Authority complied with all regulations regarding its sale of land at the Kingman Airport and Industrial Park during the 2002-03 fiscal year.

Changes in the commitment for future improvements during the year ended June 30, 2003, were as follows:

Balance, beginning of year	\$ -0-
Add: land sales during year	-0-
Deduct: expenses at Kingman Airport	<u>-0-</u>
	<u>\$ -0-</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - SUBSEQUENT EVENTS

Subsequent to June 30, 2003, the Authority entered into a note agreement with a principal balance of \$400,000 and an interest rate of 3.85% per annum. The note calls for six interest only payments followed by five months of principal and interest payments of \$2,940. The unpaid principal and accrued interest will be due July 1, 2004. However, at the option of the Authority, the note can be renewed for 12 month extensions with principal and interest payments of \$2,940. Renewal options expire on July 1, 2008 and the unpaid principal and accrued interest will be due.

SUPPLEMENTARY SCHEDULE

KINGMAN AIRPORT AUTHORITY, INC.
ENTERPRISE FUND
SCHEDULE OF NET INCOME
YEAR ENDED JUNE 30, 2003

	Airport	Industrial Park	Total
Operating revenues			
Leases	\$ <u>414,181</u>	\$ <u>38,954</u>	\$ <u>453,135</u>
Total operating revenues	<u>414,181</u>	<u>38,954</u>	<u>453,135</u>
Operating expenses			
Personnel	124,973	120,841	245,814
Payroll taxes and benefits	46,787	40,063	86,850
Office expense	8,844	7,481	16,325
Professional services	7,069	6,828	13,897
Maintenance and repairs	27,535	19,478	47,013
Motor pool	14,346	5,108	19,454
Operation expense	121,243	96,121	217,364
Depreciation	313,455	142,635	456,090
Amortization	-	4,115	4,115
Total operating expenses	<u>664,252</u>	<u>442,670</u>	<u>1,106,922</u>
Operating loss	<u>(250,071)</u>	<u>(403,716)</u>	<u>(653,787)</u>
Nonoperating revenues (expenses)			
Contributions and donations	-	94,764	94,764
Interest revenue	775	16,023	16,798
Application fees	400	-	400
Miscellaneous revenues	61,515	1,226	62,741
Interest expense	(23,348)	-	(23,348)
Contingencies	<u>(16,250)</u>	<u>(22,005)</u>	<u>(38,255)</u>
Total nonoperating revenues (expenses)	<u>23,092</u>	<u>90,008</u>	<u>113,100</u>
Net loss	\$ <u>(226,979)</u>	\$ <u>(313,708)</u>	\$ <u>(540,687)</u>